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FOR IMMEDIATE RELEASE

REPO RATE MAINTAINED AT 6.75 PERCENT

The Monetary Policy Committee (MPC) of the Bank of Namibia left the Repo rate unchanged at 6.75 percent. This decision was taken to safeguard the level of foreign reserves in view of the decline in SACU revenue and various risks related to the future developments in foreign reserves. At this level, the repo rate remains supportive of economic growth.

RECENT ECONOMIC DEVELOPMENTS

Global growth improved during the fourth quarter of 2017 compared to the third quarter, and is projected to continue improving in 2018. Monetary policy stances in key economies have generally remained accommodative during the first three months of 2018.

1. Global economic activity is estimated to have expanded in the last quarter of 2017, compared to the previous quarter, mainly on the back of robust consumer spending and improved business confidence. Going forward, the global economy is projected to grow by 3.9 percent in 2018, on account of marginally higher growth in Emerging Market and Developing Economies (EMDEs).
2. Most advanced economies (AEs) recorded improved growth rates in the last three months of 2017, except for the UK whose growth rate moderated during the same period. Going forward the AEs are projected to maintain the same growth rate of 2.3 percent in 2018 as in 2017. Among the EMDEs, economic growth strengthened in Brazil, India, China and South Africa during the last quarter of 2017 compared to the previous quarter. Russia registered slower growth during the same period. EMDEs are projected to grow by 4.9 percent on average in 2018, mainly due to positive prospects from the external environment, including stronger export demand and an improvement in commodity

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prices. Risks to the global outlook remain and include, amongst others, inward-looking trade policies and geopolitical tensions.

3. Since the previous MPC meeting in February 2018, monetary policy directions continued to be divergent globally. While the US Federal Reserve raised the target range for the federal funds rate by 25 basis points to 1.50 -1.75 percent, the real policy rate in the US remains quite low. On the contrary, the central banks of Brazil and South Africa both lowered their policy rates by 25 basis points to 6.50 percent, while Russia also reduced its policy rate by 25 basis points to a level of 7.25 percent. All these central banks cited more favourable inflation developments and the need to support economic recovery among the reasons for the reductions in policy rates.

The domestic economy contracted slightly in 2017. Inflation and the rate of growth in private sector credit extension (PSCE) slowed, while the stock of international reserves declined.

4. The domestic economy contracted by 0.8 percent in 2017, compared to a positive growth rate of 0.7 percent in 2016. The contraction in 2017 is due to declines in the construction as well as wholesale and retail trade sectors, coupled with slower growth in the manufacturing, electricity and water, transport and communication as well as the public sectors. Other key sectors such as mining and agriculture, however, improved over the same period. Going forward, the domestic economy is projected to start a gradual recovery with an expected growth rate of 1.4 percent in 2018.
5. Annual inflation averaged 3.6 percent during the first two months of 2018, compared to 8.0 percent in the previous year. The fall in the inflation rate was mainly due to a significant decline in the food and housing categories during the first two months of 2018. Inflation for the transport category rose on average during the same period, mainly on account of higher international oil prices. On a monthly basis, the inflation rate moderated to 3.5 percent during February 2018, from 3.6 percent in January. Going forward, inflation is expected to average around 4 percent in 2018.
6. Annual growth in PSCE slowed during the first two months of 2018, compared to the corresponding period in 2017. The average annual growth rate of PSCE stood at 5.3 percent for the six months up to February 2018, lower than the 7.2 percent recorded during the preceding six months. The slower growth in PSCE is due to reduced growth

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in credit advanced to both the household and corporate sectors, especially in the form of mortgage and instalment credit. Since the last MPC meeting, the growth in PSCE rose moderately to 5.7 percent at the end of February 2018, from 5.1 percent in December 2017 as reported in the previous MPC statement.

7. As at 31 March 2018, the official stock of international reserves stood at N\$26.1 billion, representing a decline of N\$4.1 billion since the end of December 2017. At this level, the stock of international reserves is projected to cover 3.8 months of imports of goods and services. Although reserves remain sufficient to sustain the currency peg between the Namibia Dollar and the South African Rand, it is relatively low compared to Namibia's peers in the region.
8. The Government budget delivered in March 2018 provided for further narrowing of the fiscal deficit to a level of 4.5 percent of GDP in 2018/19. The MPC welcomed the ongoing fiscal consolidation measures, as these could have a positive impact on the level of foreign reserves going forward.

Monetary Policy Stance

9. On the 10th of April 2018, the Monetary Policy Committee (MPC) of the Bank of Namibia held its bi-monthly meeting and decided to maintain the Repo rate unchanged at 6.75 percent. This decision was taken following a review of global, regional and domestic economic and financial developments. The next meeting of the MPC will be held on the 12th of June 2018.



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